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EXCISE D9

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INQUIRE=DOC15D
ITEM NO=00239890

ENVELOPE

CDSN = LGX933 MCN = 91217/13042 TOR = 912171348
PTTCZYUW RUEKJCS5026 2171345-CCCC--RUEALGX.
ZNY CCCCC

HEADER

P 051345Z AUG 91

FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC

RUENAAA/CNO WASHINGTON DC

RUEAHQA/CSAF WASHINGTON DC

RUEADWD/PTC WASH DC

RUSNNOA/USCINCEUR VAIHINGEN GE

RUFGAID/USEUCOM AIDES VAIHINGEN GE

RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL

RUWSMXI/MAC INTEL CEN SCOTT AFB IL//IN//

RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//

RHDLONE/CINCUSNAVEUR LONDON UK//N2/N24//

RUQYSDG/FOSIF ROTA SP

RHCGSRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//

RUCJACC/USCINCCENT MACDILL AFB FL//CARA//

RUEALGX/SAFE

P 051301Z AUG 91

FM AMEMBASSY ABU DHABI

TO RUEHC/SECSTATE WASHDC PRIORITY 2982

INFO RUEHJHM/GULF COOPERATION COUNCIL COLLECTIVE

RUEHIL/AMEMBASSY ISLAMABAD 1619

RUFHLD/AMEMBASSY LONDON 4601

RUFHFR/AMEMBASSY PARIS 2615

RUEHKO/AMEMBASSY TOKYO 1026

RUFHOL/AMEMBASSY BONN 0869

RUFHBG/AMEMBASSY LUXEMBOURG 0033

RUMJKA/AMEMBASSY DHAKA 0352

RUEHKP/AMCONSUL KARACHI 3135

RUEHHK/AMCONSUL HONG KONG 0144

RUEATRS/SECTREASURY WASHDC

RUCPDC/USDOC WASHDC

BT

CONTROLS

C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 05026

FOR L - J. OSBORNE, ALSO FOR NEW

DEPARTMENT PASS FEDERAL RESERVE

E.O. 12356: DECL:OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, ECON, TC

DEPARTMENT OF STATE

() RELEASE () DECLASSIFY
(X) EXCISE (X) DECLASSIFY
() DENY IN PART
() DELETE Non-Responsive Info
FOIA Exemptions B1
PA Exemptions

IS/FPC/CDR

MR Cases Only:
EO Citations

TS auth

() CLASSIFY () S or () C
() DOWNGRADE TS to () S or () C

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SUBJECT: UNCERTAINTY OVER HOW OR WHETHER ABU DHABI SHAREHOLDERS WILL BAIL OUT BCCI DEPOSITORS; LOCAL OPERATIONS REMAIN SUSPENDED

REFS: A) ABU DHABI 4894; B) PARIS 21153 (BOTH NOTAL)

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY:

A DECISION ON WHAT ACTION MAJORITY BCCI SHAREHOLDERS IN ABU DHABI MAY TAKE REGARDING BCCI'S FUTURE WILL AWAIT A HIGH-LEVEL REVIEW OF THE SITUATION.

HE WAS NON-COMMITTAL ABOUT WHETHER OR HOW BCCI SHAREHOLDERS WOULD INDEMNIFY THE BANK'S DEPOSITORS, EITHER HERE OR ABROAD, FOR THEIR LOSSES AND SUGGESTED THAT THE BEST COURSE OF ACTION, NOW THAT THE BANK OF ENGLAND HAS DERAILED SHAREHOLDER EFFORTS TO ORGANIZE THE BANK, WOULD BE LIQUIDATION. CLOSER TO HOME, THE OFFICIAL DID NOT BELIEVE THAT ALL LOCAL BCCI DEPOSITORS WILL BE FULLY COMPENSATED UNDER ANY SCHEME UNDER CONSIDERATION. THE NAME OF BCCI'S LOCAL AFFILIATE, BCCE, HAS BEEN CHANGED TO THE UNION NATIONAL BANK IN ORDER TO DISTANCE IT FROM THE BELEAGUERED BANK. THE NEWLY NAMED BANK IS REGARDED AS SOUND. OTHER UAEG OFFICIALS HAVE EXPRESSED INTEREST IN BCCI DEVELOPMENTS TO EMBOFFS, BUT A

CONTACT TOLD CHARGE THAT LOCAL INVESTORS, NOT THE UAEG, ARE RESPONSIBLE FOR THE ISSUE. THE RETURN OF SHEIKH ZAYED AND OTHER PROMINENT BCCI INVESTORS FROM FOREIGN HOLIDAYS SHOULD SET THE STAGE FOR DECISIONS ON HOW TO MANAGE THE GROWING BCCI SCANDAL FROM THE STANDPOINT OF ITS MAJORITY SHAREHOLDERS. END SUMMARY.

3. DURING ... CALL BY ECONOFF, ...

ECHOED CRITICISM HEARD FROM MANY UAE OFFICIALS ABOUT THE BANK OF ENGLAND'S ACTION TO CLOSE THE BANK LAST MONTH WITHOUT PRIOR CONSULTATIONS WITH ITS MAJORITY STOCKHOLDERS IN ABU DHABI. THE STOCKHOLDERS, HE RECALLED, HAD BEEN INVOLVED IN SERIOUS NEGOTIATIONS WITH BANK REGULATORS IN THE UK, HONG KONG, LUXEMBOURG AND OTHER COUNTRIES ON DEVELOPING A RESTRUCTURING PLAN TO SALVAGE THE BANK.

4. BCCI'S FUTURE IS NOW IN JEOPARDY BECAUSE OF THE BANK OF ENGLAND ACTION. EVEN THOUGH LAST WEEK'S COURT ORDER BY THE HIGH COURT IN LONDON HAS DEFERRED A DECISION ON THE BANK'S LIQUIDATION

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QUESTIONED WHETHER THE BANK COULD NOW BE SAVED AT THIS POINT, GIVEN THE WIDESPREAD LACK OF CONFIDENCE IN ITS OPERATIONS RESULTING FROM RECENT DISCLOSURES. MOREOVER, WAS NON-COMMITTAL ON WHAT ABU DHABI SHAREHOLDERS WOULD DO TO PROTECT DEPOSITORS HERE AND WORLDWIDE. HE SAID THAT A DECISION HAD NOT BEEN YET BEEN MADE. OBVIOUSLY THE BANK'S OWNERS ARE CONCERNED ABOUT ITS MORAL COMMITMENT TO "SMALL" DEPOSITORS,

BUT ARGUED THAT THE STRICT LEGAL OBLIGATIONS OF ABU DHABI OWNERS WERE ONLY THOSE OF SHAREHOLDERS OR INVESTORS, ESPECIALLY SINCE THE UAE REGULATORS HAD NOT HAD ANY SUPERVISORY AUTHORITY OVER BCCI'S INTERNATIONAL OPERATIONS PREVIOUSLY.

IT WOULD BE MUCH LESS COSTLY AT THIS POINT FROM ABU DHABI'S PERSPECTIVE SIMPLY TO LIQUIDATE THE BANK RATHER THAN TO TRY TO ATTEMPT A MASSIVE RESTRUCTURING. HE DID NOT RULE A RESTRUCTURING, HOWEVER.

5.

LOCAL PRESS REPORTS

/***** BEGINNING OF SECTION 002 *****/

E.O. 1236: DECL:OADR

THAT TOUCHE ROSS ACCOUNTANTS AS PROVISIONAL LIQUIDATORS OF BCCI HELD TALKS ON AUGUST 3 WITH COURT RECEIVERS FOR BCCI'S UAE OPERATIONS. REPORTEDLY AUTHORITIES HAVE DECIDED TO RESCUE SMALL BCCI DEPOSITORS. THE BANK OFFICIAL DID IMPLY THAT IT WOULD BE EXTREMELY UNLIKELY FOR ABU DHABI TO COMPENSATE ALL LOCAL BCCI DEPOSITORS FULLY UNDER ANY SCHEME. THE FATE OF BCCI DEPOSITORS IN OTHER COUNTRIES APPEARS EQUALLY UNCERTAIN.

THE MAJORITY SHAREHOLDERS HAD ALREADY PUMPED ADDITIONAL FUNDS INTO BCCI IN THE UK, BUT HAD NO COMMENT ON REF B'S REPORT THAT THE FRENCH HAVE ASKED SHEIKH ZAYED TO INDEMNIFY FRENCH DEPOSITORS.

6. ON AUGUST 4, THE LOCAL PRESS REPORTED THAT THE BANGLADESH FOREIGN MINISTER DURING HIS VISIT TO ABU DHABI NEXT WEEK WOULD ASK BCCI'S LOCAL PARTNER, THE BCCE (THE BANK OF COMMERCE AND CREDIT (EMIRATES)), TO TAKE OVER BCCI'S OPERATIONS IN DHAKA; THERE HAVE ALSO BEEN STORIES RUMORING THAT BCCE IS CONTEMPLATING A SIMILAR TAKEOVER OF BCCI BRANCHES IN PAKISTAN. (NOTE: THE LATEST EMBASSY INFORMATION IS THAT BCCE IS 40 PERCENT OWNED BY BCCI HOLDINGS (LUXEMBOURG); 10 PERCENT BY THE ABU DHABI INVESTMENT AUTHORITY (DIRECTLY OWNED BY THE ABU DHABI EMIRATE); 10 PERCENT BY THE DUBAI EMIRATE; 15 PERCENT BY MISCELLANEOUS INVESTORS FROM

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THE RULING FAMILIES AND BUSINESSMEN FROM THE SEVEN EMIRATES AND THE REMAINING 25 PERCENT BY UAE CITIZENS. END NOTE.)

7. BCCE IS SOUND NOW, AFTER EXPERIENCING A BRIEF PERIOD OF STRAIN BECAUSE OF HEAVY WITHDRAWALS FOR A FEW DAYS AFTER THE BANK OF ENGLAND JULY 5 ACTION AGAINST BCCI. BCCE DEPOSITS IN OVERSEAS BRANCHES WERE TEMPORARILY FROZEN, BUT AL-SHAMSI SAID THE UAE CENTRAL BANK QUICKLY CONTACTED OTHER CENTRAL BANKS TO UNFREEZE THESE FUNDS AND CONDUCTED AN ULTIMATELY SUCCESSFUL CAMPAIGN WITHIN THE UAE TO BOOST BCCE'S IMAGE AND EMPHASIZE IT AS A DISTINCT ENTITY FROM BCCI. CHARGE HAS RECENTLY NOTICED SEVERAL 4-WHEEL CARS ON ABU DHABI STREETS BEARING A SPARE TIRE COVER, PROCLAIMING THAT BCCE IS THE BANK THAT CARES!

B1

8. ON AUGUST 4, ABU DHABI CROWN PRINCE KHALIFA APPROVED A NAME CHANGE FOR BCCE IN ORDER TO DIFFERENTIATE IT FROM BCCI. IT WILL HENCEFORTH BE KNOWN AS THE UNION NATIONAL BANK, NOT THE EMIRATES UNION BANK AS PREVIOUS REPORTS INDICATED.

9. IN RECENT CONVERSATIONS, OTHER UAEG OFFICIALS HAVE ADMITTED GREAT INTEREST IN BCCI DEVELOPMENTS AND AMAZEMENT THAT SUCH A GIGANTIC FRAUD COULD HAVE HAPPENED. FOR INSTANCE,

B1

TOLD CHARGE DURING AN AUGUST 3 CONVERSATION ON ANOTHER TOPIC THAT HE WAS FOLLOWING PRESS REPORTS ON BCCI CLOSELY. INTERESTINGLY, HE REGARDED THE SCANDAL AS AN ISSUE FOR LOCAL BCCI INVESTORS TO WORRY ABOUT, BUT DID NOT THINK THE UAEG PER SE HAD PARTICULAR RESPONSIBILITY FOR THE ISSUE SAVE FOR PROTECTING LOCAL BCCI DEPOSITORS. SOMEWHAT RUEFULLY, ADMITTED THAT HE WAS NOT SURE HE WANTED TO KNOW ANY MORE ABOUT THE BURGEONING SCANDAL.

B1

10. THE LOCAL PRESS CONTINUES TO CENSOR ANY MENTION OF BCCI'S MAJORITY OWNERSHIP BY SHEIKH ZAYED AND OTHER PROMINENT UAE OFFICIALS. STORIES FOCUS ON BCCI DEVELOPMENTS IN THE UK; U.S. ACTIONS ARE EITHER

/***** BEGINNING OF SECTION 003 *****/
IGNORED OR BURIED IN WRAP-UP STORIES ALTHOUGH ONE ARTICLE APPEARING TODAY DID MENTION ATTORNEY GENERAL THORNBURGH'S AUGUST 4 TV COMMENTS THAT FURTHER AND MORE FAR-REACHING INDICTMENTS IN THE U.S. INVOLVING MONETARY AND BANKING VIOLATIONS ARE EXPECTED SOON.

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11. LOCAL NEWSPAPERS TODAY BANNERED SHEIKH ZAYED'S RETURN TO ABU DHABI LAST NIGHT FROM SEVERAL WEEKS' VACATION IN MOROCCO AND EUROPE IN TIME FOR ELABORATE CELEBRATIONS HONORING HIS 25TH ANNIVERSARY AS RULER OF ABU DHABI ON AUGUST 6. PROMINENT BCCI INVESTORS SHEIKH HUMAID BIN RASHID AL NUAIMI OF AJMAN AND SHEIKH HAMAD BIN MOHAMMED AL SHARQI OF FUJIRAH ALSO ACCOMPANIED SHEIKH ZAYED ON HIS RETURN. PRESIDENTIAL ADVISER ALI SHURARA RETURNS ON AUGUST 7. DUBAI RULER MAKTOUM BIN RASHID IS BELIEVED TO REMAIN OUT OF THE COUNTRY.

MOHLER

ADMIN
BT

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